
Discussion

CONAGRA FOODS

Richard Gady

The Canada-U.S. Free Trade Agreement was implemented on January 1, 1989. NAFTA was implemented on January 1, 1994 by the governments of Canada, Mexico, and the United States. If the markets worked as expected and barriers to trade were effectively, substantially reduced, one might expect the overall level of grain trade to accelerate and the respective countries to specialize in the crops they produce best (other things being equal). However, analysis of NAFTA effects is distorted by at least three events. Canada eliminated the Crow rail subsidy, which lowered the price of grain in the interior grain producing areas. This made the United States a more attractive market for Canadian grain. And, a sharp devaluation and recession hit Mexico shortly after NAFTA was implemented, which adversely impacted U.S. grain exports to Mexico. At the same time the U.S. dollar strengthened relative to the Canadian dollar. Finally, the United States changed its agricultural policy in 1996, which changed the pricing structure and production structure of grain grown here, as well as elsewhere in the world. But, agriculture is constantly impacted by exogenous factors, and these kinds of changes are not all that unusual.

It is important also to understand the world trends for grain trade. As opposed to rapidly growing overall world trade for all products, grain trade is not increasing. World grain trade has been flat for 20 years, following the sharp growth during the 1970's. This has been true for both coarse grains and wheat. World grain trade as a percent of usage has fallen from about 17 percent for six years in the early 1980s to about 13 percent, the same level that existed in the mid 1960s. This reflects partly a shift to meat exports rather than grain, partly excellent world crops the past four years, partly the loss of much of the Former Soviet Union market and partly the move by the EU from a major grain importer to a grain exporter.

Within this overall macro background, the NAFTA grain trade record appears much more positive than for world grain trade in general. Although grain

trade within NAFTA does not account for a sizeable portion of overall grain trade, the trend is up¹ a positive trend. As a percentage of world wheat trade, NAFTA wheat trade has increased from less than 0.5 percent in the mid 1980s to the 3.0-3.8 percent range more recently. Canadian wheat exports to the United States could decline fairly sharply in 1999/2000 due to the low protein content of the Canadian durum crop. Coarse grain trade within NAFTA countries has grown from less than 3 percent of total world coarse grain trade to about 10 percent currently. Total metric tons of grain trade have grown from about three million in the mid-1980s to around 13 million tons currently.

The pattern of trade has evolved about as one might expect. U.S. coarse grain exports have grown fairly sharply over the period, more so to Mexico than to Canada. Canadian wheat exports to the U.S. have grown from very small quantities to about 2.0 million metric tons, and perhaps would be higher, if not for a "voluntary" quota at about that level. U.S. wheat exports to Mexico have grown by similar amounts. So the U.S. has capitalized on the advantage in coarse grain production, and Canada has capitalized on an advantage in wheat production. Mexico has imported growing quantities of both coarse grains and wheat.

Conclusion

Grain trade within NAFTA countries has accelerated relative to world grain trade since the agreement was implemented. Although the quantities traded are less than 10 percent of total world grain trade, the growth has been impressive. The U.S. has appeared to capitalize on its efficiencies in coarse grain production and Canada in wheat.

From the U.S. viewpoint, there are other considerations that warrant further focus on NAFTA in the years ahead. The economic recovery and growth in Latin America is likely to enhance the importance and status of Mercosur. As Mercosur negotiates agreements with Europe, China, and other parts of Asia, the benefits of further NAFTA trade liberalization will be necessary to maintain intra NAFTA grain trading growth. Furthermore, NAFTA participants need to be vigilant to not let issues like GMO's or country-of-origin labeling requirements to become obstacles to further trade growth in the years ahead.

¹ These estimates are not totally accurate as they do not include Canada/Mexico direct Trade. Anecdotal evidence suggests the addition of that trade would reinforce.